

Investment Climate Statement, Mozambique

Openness to, and restrictions upon, Foreign Investment

The Government of Mozambique is receptive to foreign investment, which it views as a means to drive economic growth and promote job creation. Virtually all business sectors are open to foreign investors. The government has processes in place to review and approve each foreign and domestic investment; however there are almost no restrictions on the form or extent of foreign investment. The government's Investment Promotion Center (CPI) seeks to bring investors to Mozambique and should be an investor's primary contact with the government during the initial investment stage. CPI is particularly interested in increasing investment in the central and northern regions of the country in order to address large regional development imbalances. Contact information for CPI is as follows:

Investment Promotion Center (CPI)
Rua da Imprensa, 332 (ground Floor)
Caixa Postal 4635, Maputo
Tel: (258) (21) 313310/75 or (21) 313295/99
Fax: (258) (21) 313325
E-mail: cpi@cpi.co.mz
Internet: www.cpi.co.mz

Mozambique's Law on Investment, No. 3/93, dated June 24, 1993, and its related regulations govern national and foreign investment. Earlier amendments from 1993 and 1995 were replaced by Decree No. 43/2009 in August 2009, which provided new regulations to the Investment Law. The law and its regulations generally do not make distinctions based upon investor origin, nor do they limit foreign ownership or control of companies. With the exception of private security companies, media companies, and certain game hunting concessions, there was no legal requirement that Mozambican citizens own shares of foreign investments until 2011. A new law governing public-private partnerships, large-scale ventures, and business concessions, Law No. 15/2011, often referred to as the "Mega-Projects Law", passed in August 2011, states that Mozambican persons should participate in the share capital of all such undertakings in a percentage ranging from 5% to 20% of the equity capital of the project company. Regulations of this law were approved by the Council of Ministers in June 2012, bringing the new law into effect.

Lengthy registration procedures can be problematic for any investor -- national or foreign -- but those unfamiliar with Mozambique and the Portuguese language face greater challenges. Some foreign investors find it beneficial to work with a local equity partner familiar with the bureaucracy at the national, provincial, and district levels.

CPI assists both local and foreign investors in obtaining licenses and permits. However, in general, large investors receive much more support from the government in the business registration process than small and medium-sized investors. Government authorities must approve all foreign and domestic investment requiring guaranties and incentives provided by the Investment Law and its regulations. The new Code of Fiscal Benefits, Law No. 4/2009 passed in January 2009, can be found at <http://www.speed-program.com/investment>. The Regulations of the Code of Fiscal Benefits are set forth in Decree No. 56/2009 approved in October 2009.

Currently, CPI and GAZEDA handle the approval process for both foreign and domestic investors. CPI operates throughout the country, while GAZEDA is responsible for the establishment, management, and development of Industrial Free Zones (ZFI) and Special

Economic Zones (ZEE). For investment projects submitted to CPI, final approval is granted by the following government entities:

- 1) The Provincial Governor for domestic investment projects with an investment value of less than 1.5 billion meticaïs (about \$55 million);
- 2) The Director General of CPI for foreign and/or national investment projects with an investment value of less than 2.5 billion meticaïs (about \$92 million);
- 3) The Minister of Planning and Development for foreign and/or national investment projects with an investment value of less than 13.5 billion meticaïs (about \$500 million);
- 4) The Council of Ministers for:
 - a) investment projects with an investment value greater than 13.5 billion meticaïs (about \$500 million);
 - b) investment projects that require a land area greater than 10,000 hectares, to be used for any purpose, except if located on a forest area greater than 100,000 hectares;
 - c) any other projects that have foreseeable political, social, economic, financial, or environment impacts such that their nature should be reviewed and decided by the Council of Ministers, at the proposal of the Minister of Planning and Development.

In turn, final approval of investment projects to be carried out under the ZFI or ZEE regime is granted by the Director General of GAZEDA.

Mozambique's privatization program has been relatively transparent, with open and competitive tendering procedures in which both foreign and domestic investors have participated. Most remaining parastatals operate as state-owned public utilities, with government oversight and control, making their privatization more politically sensitive. While the government has indicated an intention to include private partners in most of these utility industries, progress has been slow.

Mozambique slipped seven places in the The World Bank's annual "Doing Business" report (www.doingbusiness.org) in 2012, from 139 to 146 out of 185 countries. Of the ten categories, Mozambique placed 96th in "Starting a Business" and 49th in "Protecting Investors," two of its highest rankings. However, Mozambique ranked near the bottom in the new categories created in 2011--"Getting Electricity" (174th place) and Registering Property (155th place).

According to the IMF, Mozambique experienced continued economic growth in 2012 with a real growth rate of 7.5% benefiting from a robust performance in the services sector and a stronger-than-expected contribution from the nascent coal industry; inflation has remained low. In Mozambique, the change in Consumer Price Index in the city of Maputo is used as the official reference for national inflation. According to the National Statistics Institute, the annualized Consumer Price Index in 2012 was 2.09% in the city of Maputo, the lowest in Mozambique's post-colonial history. The real growth rate is expected to reach 8.4% in 2013 according to the IMF.

Mozambique is a challenging place to do business and offers high risks and the potential for high returns for experienced investors. Investors must factor in widespread corruption, an underdeveloped financial system, poor infrastructure, and high on-the-ground costs. Surface transportation inside the country is slow and expensive, while bureaucracy, port inefficiencies, and corruption complicate imports. Despite these challenges, foreign investment levels continue to rise and investors are seeing some business climate

improvements, and some U.S. companies have or are in the process of opening offices in Mozambique to take advantage of the increasing opportunities.

MEASURE	YEAR	INDEX/RANKING
Transparency International Corruption Index	2012	31 (123 out of 174)
Heritage Economic Freedom	2013	55.0 (123 rd out of 177)
World Bank Doing Business	2013	146 (out of 185)
Millennium Challenge Corporation (MCC) Government Effectiveness	2013	0.33 (76 th percentile)
MCC Rule of Law	2013	0.35 (75 th percentile)
MCC Control of Corruption	2013	0.47(85 th percentile)
MCC Fiscal Policy	2013	-4.8 (26 th percentile)
MCC Trade Policy	2013	75.4 (83 rd percentile)
MCC Regulatory Quality	2013	0.36 (78 th percentile)
MCC Business Start Up	2013	0.957 (80 th percentile)
MCC Land Rights Access	2013	0.69 (84 th percentile)
MCC Natural Resource Protection	2013	97.4 (78 th percentile)

Conversion and Transfer Policies

Currency is freely convertible at banks and exchange houses for recurrent transactions while capital transactions have to be approved by the central bank. Guidelines for capital transactions with the Central Bank are normally outlined in the investment approval documents and can only be performed through a local bank. The Foreign Exchange Law (Law no. 11/2009 of March 11 2009) and its subordinate regulation (Decree no. 83/2010 of December 31 2010) require companies to remit their export earnings to Mozambique and convert 50% thereof to local currency, commonly referred to as an “export surrender” requirement. Foreign Direct Investments (FDI) into Mozambique must be registered with the Central Bank within 90 days to allow for the monitoring of foreign exchange. Private individuals are limited to a maximum of \$5,000 per foreign exchange transaction and larger transactions must receive the approval of the Central Bank. The administrative procedures

required for the repatriation of capital, profits and dividends, all of which are necessarily foreign exchange transactions, can take a significant amount of time and require coordination with the Ministry of Finance to obtain tax clearance. Investors should raise any foreign exchange concerns early in the negotiation process with the Government of Mozambique and ensure that profit, dividends, and other repatriation of foreign exchange is included in their investment approval documents to avoid any potential issues in the future.

Expropriation and Compensation

Certain private property, such as land, rental housing, and second homes were nationalized in Mozambique following independence from Portuguese colonial rule in 1975; certain other properties, including many businesses abandoned by their owners, were temporarily taken over by the State. After Mozambique's turn away from socialism in the late 1980s, citizens had a period of time to lodge claims to regain residential property. The Government retained some businesses, but sold off many as part of its privatization efforts. All but a handful of religious properties that were nationalized have been returned; negotiations are ongoing for the remaining few.

While there have been no significant cases of nationalization since the adoption of the 1990 Constitution, Mozambican law holds that "when deemed absolutely necessary for weighty reasons of national interest or public health and order, the nationalization or expropriation of goods and rights shall (result in the owner being) entitled to just and equitable compensation." The Government is currently embarking on a process to buy back land and property along the proposed circular road being built around the capital city of Maputo.

No U.S. companies have been subject to expropriation issues in Mozambique since adoption of the 1990 Constitution.

Dispute Settlement

In December 2005 the Parliament approved major revisions to the Commercial Code – the result of a collaborative effort starting in 1998 between the Mozambican government, the private sector, and donors. The previous Commercial Code was from the colonial period, with clauses dating back to the 19th century, and did not provide an effective basis for modern commerce or resolution of commercial disputes. The revised code went into effect July 1, 2006, and is generally viewed as a very positive development.

Recourse to the judicial system in Mozambique can present many obstacles for potential investors. Generally, the Mozambican judicial system is largely ineffective in resolving commercial disputes and certain cases consume a large amount of time and resources. Instead, most disputes among Mozambican parties are either settled privately or not at all, and there are no discernable patterns to resolution of investment disputes.

In 1999, the Parliament passed Law no. 11/99 of July 8 1999 (Law on Arbitration), which provides for foreign investors to have access to modern commercial arbitration. The Center for Commercial Arbitration, Conciliation and Mediation (CACM), which is supported by USAID, offers commercial arbitration. CACM has two locations – one in Maputo and a second in the central city of Beira.

For disputes between international and domestic companies, the law closely follows the United Nations Commission of International Trade Law (UNCITRAL). Mozambique is a member of several key international arbitration conventions. For domestic arbitration, the law is formulated to cover a wide range of potential disputes, including non-commercial issues.

Since 2009, CACM also offers labor mediation and arbitration. Although pro-worker regulations make hiring and firing of workers difficult, some improvements were made through Law No. 23/2009 of August 2009 (the Labor Law). In comparison with the legislation that preceded it, the Labor Law provides less generous compensation in cases of termination of employment contracts, encourages dispute settlement through arbitration, and allows broader use of fixed-term employment contracts that make it possible for employers to hire employees on seasonal or project-limited basis. However, the Constitutional Council ruled certain articles of the new Labor Law to be unconstitutional in October 2011. Mandatory mediation was determined to be illegal and cannot be imposed on either the employer or employee. The employee now has the right to go to court directly if desired and as permitted by the Constitution.

Mozambique acceded in mid-1998 to the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards. For disputes between U.S. and Mozambican companies where a violation of the nations' Bilateral Investment Treaty (BIT) is alleged, recourse via the international Alternative Dispute Resolution under the BIT may also be available. Investors who feel they have a dispute covered under the BIT should contact the U.S. Embassy Economic Section. Mozambique does not currently have a unified bankruptcy law and bankruptcy filings are very rare. Portions of the bankruptcy regulation are found throughout the civil procedure code.

A foreign court's ruling against a Mozambican party, in most cases, would generally be recognized and upheld by the Mozambican Supreme Court after it has been reviewed and confirmed.

Performance Requirements and Incentives

Mozambique is generally in compliance with World Trade Organization's (WTO) Trade-Related Investment Measures (TRIMs) obligations. The Code of Fiscal Benefits is structured into two parts: general incentives and specific incentives. The latter are granted to investments in strategic sectors of activity, such as agriculture and fisheries, basic infrastructure, rural commerce and industry, manufacturing and assembly industries, hotels and tourism, science and technology parks, and large scale projects. The former are granted to investments in other sectors to which specific incentives are not granted under the Code of Fiscal Benefits or other legislation.

In very limited cases, such as agriculture, fishery, and the creation of basic infrastructure, the specific incentives involve a reduction of the rate of corporate income tax. The general incentives include exemptions from customs duties and VAT on the importation of specially designated equipment located in the Customs Tariff Schedule, deductions in Corporate Income Tax depending on the geographical area of investment, as well as for expenses with public infrastructure, training of Mozambican employees, and in the use of new technology which depreciate rapidly. Currently, investors in the agriculture and fishery sectors receive the most generous tax incentives. In late 2012, the government took a decision effective January 1, 2013 to raise the capital gains tax from 12.8% to 32% and to apply this tax rate on all transactions involving a Mozambican asset or entity between two parties, regardless of where either party is domiciled.

The Code of Fiscal Benefits contains some specific incentives granted to entities that intend to invest in certain geographical areas within Mozambique that have great natural resource potential but which lack infrastructure and have low levels of economic activity. For this purpose the Rapid Development Zones (RDZ) regime was created, covering the Zambeze River Valley Zone, Niassa Province, Nacala District, Moçambique Island, Ibo Island, and other areas approved by the Government. Investments in these zones are exempt from import duties on certain goods, and are granted an investment tax credit equal to 20% of the total investment (with a right to carry forward for five years). Additional modest incentives are available for professional training and in the construction and rehabilitation of public infrastructure, including but not limited to roads, railways, water supply, schools, and hospitals.

Specific performance requirements are built into mining concessions and management contracts, and sometimes into the sale contracts of privatized entities. Investments involving partnerships with the government usually include milestones that must be met for the investor's project to continue. The government generally does not require investors to purchase from local sources nor does it require technology or proprietary business information be transferred to a local company. However, the new draft mining law that is expected to be passed by Parliament this year obliges investors to give preference in purchasing from local sources available in Mozambique which are of an internationally comparable quality and which are offered at competitive prices, in terms of delivery. This legal requirement already applies to procurement in the petroleum sector.

Right to Private Ownership and Establishment

The legal system recognizes and protects property rights to building and movable property. Private ownership of land, however, is not allowed in Mozambique. Land continues to be owned by the State. However, the government grants land-use concessions for periods of up to 50 years, with options to renew, called "DUATs" (Direitos de Uso e Aproveitamento de Terra, or a land-use title). The government at times has granted overlapping land concessions. Essentially, land-use concessions serve as proxies for land titles; however, they are not allowed to be used as collateral. Land surveys are being carried out throughout the country to enable individuals to register their land concessions. This process is moving slowly and will not provide any real legal protection to investors for some time to come. The Mozambican banking community uses property other than land, such as cars, private houses, and infrastructure, as collateral. Investors should be aware of the requirement to obtain endorsement of their projects in terms of land use and allocation at a local level from the affected communities.

CPI, as part of its goal of attracting foreign investment, assists investors with finding suitable land for development and obtaining the appropriate documentation. This includes government assistance to find appropriate agricultural land. The government advises company on relocating individuals currently occupying land designated for development, however the companies are ultimately responsible for planning and executing resettlement programs.

Protection of Property Rights

The government recognizes and enforces the protection of private property and provides a mechanism that protects and facilitates their acquisition and disposition. Secured interests in property, both movable and real, is recognized and enforced. Depending on the type of property, it can be registered at differing government agencies. Some investors have reported unscrupulous individuals trying to sell fraudulently notarized documents related to real properties and mortgages.

The enforcement of intellectual property rights in Mozambique is sporadic and inconsistent, with raids and prosecutions extremely rare. Occasionally, media reports describe large-scale raids on pirated items, but threats of prosecution seem to have little effect. Pirated copies of audio, videotapes, DVDs and other goods are commonly sold in Mozambique.

The Parliament passed a copyright and related rights bill in 2000. This bill, combined with the 1999 Industrial Property Act, brought Mozambique into compliance with the WTO agreement on the Trade Related Aspects of Intellectual Property Rights (TRIPS). The law provides for the security and legal protection of industrial property rights, copyrights, and other related rights. In addition, Mozambique is a signatory to the Bern Convention on International Property Rights, as well as the New York and Paris Conventions.

Private sector organizations have been working together with various government entities on an intellectual property rights task force team in an effort to combat intellectual property right infringement and related public safety issues. However, there has been limited success in achieving the desired results.

Transparency of Regulatory System

Investors face a myriad of requirements for permits, approvals and clearances, all of which take a significant amount of time and effort to obtain. The difficulty of navigating the system enables corruption, and bribes are often requested to facilitate routine transactions.

Regulations in the areas of labor, health and safety, and the environment are routinely not enforced, or are selectively enforced. In addition, civil servants have at times threatened to enforce antiquated regulations that remain on the books to obtain favors or bribes. The government is aware of the problems and in recent years has launched a donor-funded effort to streamline procedures. Changes to laws and regulations are published in the Official Gazette. Public comments to proposed new laws and regulations are usually limited and input may come from a few private sector associations, such as the Confederation of Business Associations (CTA). CTA, a private umbrella business organization of 64 associated members, is considered the most important business association in Mozambique, and is the organization that officially represents the interests of a wide number of private sector business associations. The Association of Commerce and Industry (ACIS), based in Beira, Sofala Province, is a Mozambican non-profit business organization that represents the interests of over 300 companies, both national and international (including major U.S. companies).

In 2010, Mozambique also enacted new International Financial Reporting Standards to bring its financial practices in line with international norms. Implementation of the new standards has been expensive and time-consuming for some investors.

Efficient Capital Markets and Portfolio Investment

Mozambique has a small capital market of approximately 18 commercial banks, of which three to four dominate the market. The banks compete for important clients and deposits. Access to credit for the private sector remains difficult and expensive. Interest rates for commercial loans in the local currency are generally around 18% to 22% per year. The government-owned Small Scale Investment Support Office (GAPI) and its partners are also working on rural finances and developing small agro-industries as a strategy for risk mitigation.

Mortgage loans are around 15 % per year. Access to capital in the rural areas is constrained by the fact that land-use titles cannot serve as collateral. Various entities, such as the Aga Khan Foundation, BancoProcredit, and BancoTerra offer micro-credit financing programs to partially fill this need.

The Mozambican Stock Exchange, founded in October 1999, was started with less than \$5 million in capitalization. Companies seldom use the stock exchange as a source of financing, and to date the Exchange's principal listings are Cervejas de Mocambique and Companhia Mocambicana de Hidrocarbonetos. The capital base requirement for listing is \$1.5 million.

Competition from State Owned Enterprises

Current state-owned enterprises have their origin in the socialist period directly following Mozambique's independence in 1975. Government participation varies depending on the company and sector and is managed by the Institute for the Management of State Participation (IGEP). There are a variety of state-owned enterprises that compete with the private sector. Some of the largest state-owned companies -- Telecomunicações de Moçambique (TDM), Aeroportos de Moçambique (ADM), Electricidade de Mocambique (EDM) and Linhas Aéreas de Moçambique (LAM) -- have monopolies in their respective industries (landline telephones, airports, electricity, and air transportation). In some cases, state-owned companies enter into joint ventures with private firms to deliver certain services. For example, Portos e Caminhos de Ferro de Moçambique (CFM), which has a monopoly in ports and railways, is privately managed under a public-private partnership agreement. Some of these state-run enterprises benefit from state subsidies.

Corporate Social Responsibility

Corporate Social Responsibility (CSR) is a high-profile issue world-wide, and U.S. investors and businesses are now expected to figure CSR into their business plans. Local media reports have highlighted protests by relocated populations at mine sites, principally in the coal-rich province of Tete, while international non-government organizations (INGOs) have partnered with local civil society to raise provocative questions over the triple-bottom-line (profits, people, planet).

Although larger companies and investors are already aware of these and similar CSR issues in Mozambique, the tendency is to: (1) set voluntary standards in-house, with little online or in-country awareness of CSR; (2) abide by sector-specific guidelines, which are poorly advertised abroad; or (3) engage in small-scale development projects. As part of some large investment projects in Mozambique, CSR-related issues have been negotiated directly with the government according to local needs. For instance, large mining companies have collaborated with the government to resettle small communities to access concession sites.

With its high density of international donors, among which the United States remains the largest contributor of bilateral foreign assistance, Mozambique offers promising opportunities for public-private partnerships under the banner of CSR. Business cooperation with existing development assistance, such as [Feed the Future](#) or [the G8 New Alliance for Food Security and Nutrition](#), can help strengthen brand reputation against foreign competitors, and further align business interests with the government's (and donor community's) commitment to more inclusive, sustainable growth in Mozambique.

Several key international documents that can help guide CSR in Mozambique. The United Nations' (U.N.) 'Protect, Respect, and Remedy Framework' for Business and Human Rights (2008) and the subsequent U. N. Guiding Principles on Business and Human Rights, were unanimously endorsed by the Human Rights Council in 2011. The U. N. Guidelines align with several other international frameworks of direct relevance to U.S. companies and investors especially: the U. N. Global Compact (1999), of which Mozambique is a member; Organization for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises (updated in 2011, endorsed by the U.S.); and International Standards Organization (ISO) 26000: Guidance for Social Responsibility (2010). Sector-specific initiatives include the Extractive Industries Transparency Initiative (EITI); Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries, and Forests in the Context of National Food Security; and the Principles for Responsible Agriculture Investment.

The Mozambican CSR Network (www.pactum.co.mz) was created to promote sound initiatives and provide technical assistance to companies interested in investing in the communities where they operate. Training and information on CSR is made available to members. A study commissioned by the Ministry of Mineral Resources in 2011, which summarizes the CSR interventions of companies in the mining and gas sectors and makes recommendations on aspects to consider for a new law, is expected to be published in 2013.

Political Violence

National presidential, legislative and provincial elections conducted on October 28, 2009, occurred with only a few incidents of localized violence; however, international electoral observers noted that undue influence exercised by the ruling Frelimo Party resulted in an "uneven playing field." Supporters of the opposition party Renamo complained of intimidation and arbitrary arrests. Newly formed opposition party Mozambique Democratic Movement (MDM) was excluded, many say unfairly, from many legislative contests.

On December 7, 2011, multiparty democracy in Mozambique took a measureable step forward with the election of a member of the MDM party as mayor of the provincial capital of Quelimane, in what was considered by international observers as a generally free and fair election.

However, in the April 2012 mayoral by-elections in Inhambane Province, 37 members of MDM were arrested, tried, convicted, and received two-month prison sentences for allegedly campaigning illegally during the April mayoral by-election. Their imprisonment was strongly condemned by the international donor community.

The next round of national municipal elections will be held in September 2013. The next round of presidential elections will be held in late 2014. Both races will be hotly contested and will be a test of the government's ability to accommodate opposition parties into the political dialogue.

The majority of Mozambicans work outside a formal organized labor structure, but where they exist, labor groups lack the financial and institutional capacity to muster effective, coordinated efforts among their members. Strikes, when they do occur, rarely turn violent. There have been work stoppages, often as a result of failure to receive salary owed.

Crime is common in Maputo, where carjackings, muggings, and armed home break-ins do occur. An underpaid, undertrained, and under-resourced police force lacks professionalism. In September 2010, violent street protests over rising consumer prices in Maputo and several provincial cities resulted in at least 13 deaths, most of which were attributed to the police.

Corruption

Corruption, including bribery, raises the costs and risks of doing business and has a corrosive effect on the broader political and business climate. It also deters international investment, stifles economic growth and development, distorts prices, undermines the rule of law, and can cause broader social unrest

It is critical for U.S. companies, irrespective of their size, to assess the business climate in the relevant market in which they will be operating or investing, and to have an effective compliance program or measures to prevent and detect corruption, including foreign bribery. U.S. individuals and firms operating or investing in foreign markets should take the time to familiarize and comply with the relevant anti-corruption laws of both the foreign country and the United States and, where appropriate, seek the advice of legal counsel.

The U.S. Government seeks to level the global playing field for U.S. businesses by encouraging other countries to take steps to criminalize their own companies' acts of corruption, including bribery of foreign public officials, per their obligations under relevant international conventions. A U.S. firm that believes a competitor is seeking to use bribery of a foreign public official to secure a contract should bring this to the attention of appropriate U.S. agencies, as noted below.

U.S. Foreign Corrupt Practices Act: In 1977, the United States enacted the Foreign Corrupt Practices Act (FCPA), which makes it unlawful for a U.S. person, and certain foreign issuers of securities, to make a corrupt payment to foreign public officials for the purpose of obtaining or retaining business for or with, or directing business to, any person. The FCPA also applies to foreign firms and persons who take any act in furtherance of such a corrupt payment while in the United States.

The Department of Justice's FCPA Opinion Procedure enables U.S. firms and individuals to request a statement of the Justice Department's present enforcement intentions under the anti-bribery provisions of the FCPA regarding any proposed business conduct. The details of the opinion procedure are available on the Department of Justice's Fraud Section Website at www.justice.gov/criminal/fraud/fcpa. Although the Department of Commerce has no enforcement role with respect to the FCPA, it supplies general guidance to U.S. exporters who have questions about the FCPA and about international developments concerning the FCPA.

Other Instruments: It is U.S. Government policy to promote good governance, including host country implementation and enforcement of anti-corruption laws and policies pursuant to their obligations under international agreements. Since enactment of the FCPA, the United States has been instrumental to the expansion of the international framework to fight corruption. Several significant components of this framework are the OECD

Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (OECD Anti-bribery Convention), the United Nations Convention against Corruption (UN Convention), the Inter-American Convention against Corruption (OAS Convention), the Council of Europe Criminal and Civil Law Conventions, and a growing list of U.S. free trade agreements.

UN Convention: The United Nations Convention against Corruption entered into force on December 14, 2005, and is the first global comprehensive international anti-corruption agreement. The UN Convention requires countries to establish criminal and other offences to cover a wide range of acts of corruption. The UN Convention goes beyond previous anti-corruption instruments, covering a broad range of issues ranging from basic forms of corruption such as bribery and solicitation, embezzlement, trading in influence to the concealment, and laundering of the proceeds of corruption. The Convention contains transnational business bribery provisions that are functionally similar to those in the OECD Anti-bribery Convention and contains provisions on private sector auditing and books and records requirements. Other provisions address matters such as prevention, international cooperation, and asset recovery. Mozambique is a signatory to and has ratified the United Nations Convention against Corruption.

Free Trade Agreements: While it is U.S. policy to include anti-corruption provisions in free trade agreements (FTAs) that it negotiates with its trading partners, the anti-corruption provisions have evolved over time. The most recent FTAs negotiated now require trading partners to criminalize “active bribery” of public officials (offering bribes to any public official must be made a criminal offense, both domestically and trans-nationally) as well as domestic “passive bribery” (solicitation of a bribe by a domestic official). All U.S. FTAs may be found at the U.S. Trade Representative Website: www.ustr.gov/trade-agreements/free-trade-agreements. Mozambique does not have a free trade agreement (FTA) in place with the United States, but does have a Bilateral Investment Treaty (BIT).

Local Laws: U.S. firms should familiarize themselves with local anti-corruption laws, and, where appropriate, seek legal counsel. While the U.S. Department of Commerce cannot provide legal advice on local laws, the Department’s U.S. and Foreign Commercial Service can provide assistance with navigating the host country’s legal system and obtaining a list of local legal counsel.

Assistance for U.S. Businesses: The U.S. Department of Commerce offers several services to aid U.S. businesses seeking to address business-related corruption issues. For example, the U.S. and Foreign Commercial Service can provide services that may assist U.S. companies in conducting their due diligence as part of the company’s overarching compliance program when choosing business partners or agents overseas. The U.S. Foreign Commercial Service can be reached directly through its offices in the United States and U.S. Embassies abroad, or through its Website at www.trade.gov/cs.

The Departments of Commerce and State provide worldwide support for qualified U.S. companies bidding on foreign government contracts through the Commerce Department’s Advocacy Center and the State Department’s Office of Commercial and Business Affairs. Problems, including alleged corruption by foreign governments or competitors, encountered by U.S. companies in seeking such foreign business opportunities can be brought to the attention of appropriate U.S. government officials, including local embassy personnel and through the Department of Commerce Trade Compliance Center “Report a Trade Barrier” Website at www.tcc.export.gov/Report_a_Barrier/index.asp.

Mozambique: Mozambique ranked 123th out of 176 countries on Transparency International's 2012 Corruption Perceptions Index, down from 120th place (out of 184) in 2011.

The police continue to be poorly paid and work under poor conditions. Corruption and extortion by police are widespread, and impunity remains a serious problem. It is widely believed that some police members have tipped off criminals to police operations. Corruption is a concern across the government, and senior officials often have conflicts of interest between their public roles and their private business interests. The Office of the Prosecutor General has embarked upon several high-profile corruption prosecutions, including those of two former ministers, and it has obtained convictions in several other cases involving officials of government parastatals and provincial government offices.

The Mozambican government set up an Anti-Corruption Unit in the Office of the Attorney General (renamed in 2005 the Central Office for the Combat of Corruption) with the help of international donors. This body is charged with investigating corruption-related crimes, which it then refers to the Prosecutor General. In 2005, the government passed Decree 22/2005, which created provincial-level offices to combat corruption. Offices in Beira and Nampula are in operation.

The National Assembly passed an anti-corruption bill in 2004 that updated previous antiquated legislation. Civil society (particularly the media and a few dedicated NGOs) has remained vocal on corruption-related issues, with some support from the U.S. government. One NGO, the Center for Public Integrity, continues to be active in publicly pressuring the government to act against corrupt practices (www.cip.org.mz).

In 2012, the Parliament passed a portion of a package of anti-corruption reforms. President Armando Guebuza signed the "Law on Public Integrity" and the "Witness and Victims Protection Act" on July 16, 2012. The passage of the Law on Public Integrity addresses conflict of interest issues involving public officials. The Law on Public Integrity bans government officials and parliamentarians from simultaneously holding positions in state-owned companies. Mozambique's First Constitutional Commission submitted a proposal to create within Parliament a new Commission for Parliamentary Ethics in January 2013, which will review conflict of interest cases involving its members. In spite of these legislative milestones, corruption remains a significant problem at all levels. While these legislative reforms provide a sound basis for combating corruption, implementation is the next crucial step. Donor governments are strongly urging the Mozambican government to approve the remaining portions of the anti-corruption bill in 2013. Following the implementation of the Public Integrity law at the beginning of 2013 all Parliamentarians, approximately 30 members, resigned either private or parastatal positions or their seats in Parliament.

Bilateral Investment Agreements

In December 1998, Mozambique negotiated a Bilateral Trade Agreement (BIT) with the United States. The U.S. Senate ratified the treaty in November 2000, followed by the Mozambican Council of Ministers in December 2004. The United States-Mozambique BIT came into effect on March 3, 2005. In June 2005 the United States and Mozambique signed a Trade and Investment Framework Agreement (TIFA) that established a Trade and Investment Council to discuss bilateral and multilateral trade and investment issues. The Council held its first meeting in October of 2006. The latest TIFA Council meeting was held in January 2012 during the visit of Deputy United States Trade Representative Demetrios Marantis to Mozambique. During the visit, the U.S. and Mozambican governments identified key strategies to improve trade between the two nations: improving the investment climate,

increasing Mozambique's use of the African Growth and Opportunity Act (AGOA), diversifying exports, and overcoming obstacles to trade. Discussions also highlighted other areas for attention, including tobacco exports, trade missions to expose investors to new markets, pre-inspection regulations of export goods, infestations damaging agricultural crops, and the use of turtle excluder devices (TED) in shrimp fishing.

Mozambique has also signed bilateral investment agreements with the following nations: Algeria, Belgium, China, Cuba, Denmark, Egypt, Finland, France, Germany, Indonesia, Italy, Mauritius, The Netherlands, Portugal, South Africa, Sweden, Switzerland, The United Kingdom, and Zimbabwe. Double Taxation Treaties have been agreed with Portugal, Mauritius, Italy, South Africa, Botswana, India, Vietnam, Macau, the Sultanate of Oman and the United Arab Emirates. Further Double Taxation Treaties with Qatar and Uruguay are currently under negotiation.

OPIC and Other Investment Insurance Programs

The Overseas Private Investment Corporation (OPIC) is an independent U.S. government agency that can assist with project finance, through loans or loan guaranties, and political risk insurance in Mozambique, for projects with U.S. involvement ranging from \$500,000 to \$400 million.

OPIC signed an investment incentive agreement with Mozambique in 1999, later ratified in 2000. From 2011-2012, at least three companies, sought an OPIC loan to set up business operations in Mozambique. Following a 2012 visit to Mozambique by OPIC President and CEO Elizabeth Littlefield, at least three more companies expressed interest in future OPIC loans. Potential for OPIC investment is likely to increase in line with Mozambique's own expected economic growth due to commercialization of Mozambique's natural resources.

Mozambique is a member of the Multilateral Investment Guarantee Agency (MIGA), part of the World Bank Group.

Labor

The estimated workforce is approximately 9.6 million, out of a total population of nearly 24 million. The majority of Mozambique's workforce has not completed secondary school, which presents a significant skills deficit with serious consequences to productivity and employability of Mozambique's growing population. Current estimates place nationwide adult literacy levels at 32% among females and 62% among males. Approximately 80% of the labor force works in agriculture (usually subsistence agriculture), 6% in industry and 13% in services. Of those employed, approximately 16.4% of Mozambicans are in the formal sector while the remainder works in the lower income informal sector. Minimum wage rates apply only to the formal sector and range from \$74 to \$202 per month depending on the sector. Many people work several jobs to earn a sufficient income for their basic needs and often grow agricultural products on small plots of land for personal consumption. Although the minimum age for employment is 15, the agricultural sector employs a significant number of children under the age of 15. Sometimes these children are victims of trafficking in persons or forced labor and work long hours for little to no pay. Mozambique remains vulnerable to the pressures of youth unemployment as an estimated 300,000 young people become eligible for employment each year, yet do not have sufficient skills to be employable.

Although the contracting of Mozambican workers is unrestricted, contracting of foreign workers by national or foreign entities, including administrators and representatives of foreign companies, is subject to the authorization of the Ministry of Labor. Foreign workers must possess professional qualifications and may only be contracted where there are no Mozambicans with such qualifications or their number is insufficient. In 2009, the Ministry of Labor began enforcing quotas for foreign workers as a percentage of the workforce within individual private companies. Quota levels are dependent on the size of the company. All investments must specify in the investment project proposal the number and category of Mozambican and foreign workers to be employed.

The process of obtaining a visa and work permits for foreigners in Mozambique is lengthy and bureaucratically complex. The Ministry of Labor must approve the employment of foreigners. The Ministry of Interior's immigration department issues a DIRE (a work permit/identification card) once the Ministry approves the application. Assistance through a local lawyer, consulting firm or an individual familiar with the process will facilitate obtaining necessary work permits. In 2009, the Ministry of Labor began enforcing a quota system which requires the number of foreign employees to be no larger than 10% of a company's workforce, depending on the overall size of the company. The standard quotas are as follows: (i) for small size companies (up to 10 employees), 10%; (ii) for medium-sized companies (more than 10 employees and up to 100 employees), 8%; and (iii) for large companies (with more than 100 employees), 5%. Distinct procedures, with potentially more generous quotas, exist for the petroleum, mining sectors, and other large investors. Foreign nationals have found that the bureaucratic process and documentary requirements inherent in requesting or renewing work authorizations through the Ministry of Labor are exceedingly difficult. Some investments, covered under specific agreements with the Government, enjoy distinct quotas; however, in some cases the Ministry of Labor has arbitrarily required the same companies to comply with generally applicable quota regulations.

The establishment of wages and other forms of compensation to be paid to the employee are not subject to control. However, the labor legislation provides for a minimum wage of \$74 to \$202 per month depending on the industry sector. Employers are obliged by law to pay social security tax assessed at 7% of the employees' wages. A maximum of 3% of this is deductible from the employee's salary, while the remaining 4% is met by the employer. Foreign resident workers may be exempt if they can demonstrate participation in an alternate social security scheme.

Labor unions created during the socialist years of the 1970s and 1980s remain weak and have difficulty disengaging themselves from the ruling party, Frelimo, which played a lead role in their establishment. Total membership among Mozambique's fourteen unions is close to 200,000 persons. Labor unions do exert pressure on the government to maintain some pro-worker provisions in labor legislation, particularly regarding dismissal of local personnel and work force composition, although they show flexibility on other important issues. The minimum wage, determined every year, remains a significant concern for the unions. Potential investors are advised to factor in costly severance payments and other benefits in their decision making. Despite the introduction of a new labor law in 2007, the labor market remains rigid and an impediment to business.

Mozambique has adopted the International Core Labor Standards.

Foreign-Trade Zones/Free Ports

The government issued Decree No. 61/99 on September 21, 1999, establishing export processing zones called Industrial Free Zones. The decree set up an Industrial Free Zone Council, which approves companies as industrial free zone enterprises, thereby providing them customs and tax exemptions and other benefits, including profit repatriation. There are three essential requirements for Industrial Free Zone status: job creation for Mozambican nationals, the exportation of at least 85% of annual production, and a minimum investment of \$50,000. Almost all industries, with the exception of prospecting and exploration of natural resources, processing of raw cashew nuts and seafood (including prawns) can be authorized under an Industrial Free Zone status.

Industrial Free Zone developers enjoy an exemption from customs duties, VAT and tax on the importation of construction materials, machinery, equipment, accessories, accompanying spare parts, and other goods destined for the establishment and operation of the Industrial Free Zone.

Free Zone concessions are granted for a renewable period of 50 years. Mozambique's large export-oriented investment projects of recent years operate as Industrial Free Zones. Mozal, a joint venture of several international companies, is the second largest aluminum producer in Africa and operates as a free-trade zone.

In addition, Special Economic Zones can be established on a case-by-case basis with the objective of developing specific geographical areas that benefit from exemption from custom duties and taxes, a free "off-shore" type foreign exchange regime, and special labor and immigration regimes. For example, a special tax and custom regime has been created for the Zambezi Valley until 2025.

Foreign Direct Investment Statistics

According to CPI's list of approved projects, during the first three quarters of 2012, Portugal was the largest investor in terms of size of investment in Mozambique, followed by South Africa, and the United Arab Emirates. During this time, the United States slipped from 1st to the 19th position as an investor with only three projects approved. During the same rated period, CPI approved a total of 248 projects in different sectors in all eleven provinces of Mozambique. A majority of the projects (66) are in Maputo Province and are reportedly responsible for the creation of approximately 2,850 new jobs. The United States was the largest investor in 2011.

The largest U.S. investor in Mozambique is Anadarko Petroleum. By their own accounts, Anadarko has invested more than \$1 billion in their oil and gas exploration project off the northern coast of Mozambique since beginning their operations in 2006. In December 2011, Anadarko along with its consortium partner and government parastatal company Empresa Nacional dos Hidrocarbonetos secured a 7,000 hectare land-use right to construct a multi-billion dollar gas liquefaction facility in northern Mozambique. Anadarko plans to make a final investment decision on the construction of the facility in early 2014. The initial construction project is estimated to be \$15 billion, to be completed in late 2018. The amount of recoverable gas in place is reportedly sufficient to justify at least a five-fold expansion of the gas liquefaction facility, resulting in upgrades of at least \$60 billion.

The second largest U.S. investor is Mozambique Leaf Tobacco (MLT) Limitada, based in Tete Province, a subsidiary of Universal Corporation based in Virginia. MLT has invested more than \$100 million in their loose-leaf tobacco processing business since opening in 1996. MLT also works with over 150,000 small tobacco farmers across four provinces and exports

all of its tobacco to foreign markets like Europe and Asia and according to MLT, generated \$160 million in export sales in 2011.